

Operational Risk Assessments News Bulletin

FCI Lender Services, Inc.

FCI Lender Services, Inc. 'MOR RS3' Special Servicer Ranking Assigned

Morningstar Credit Ratings, LLC (Morningstar) has assigned FCI Lender Services (FCI) a 'MOR RS3' ranking as a residential mortgage special servicer. Our assigned ranking is based on our assessment of FCI's tenured management team, extensive business history as a specialty servicer, emerging risk management methodologies, effective technology environment, and loan administration servicer performance metrics.

Key factors in Morningstar's Operational Risk Assessment of FCI are based on the following considerations:

- The company's highly tenured management team and relevant industry experience as a special servicer for mortgage brokers, private investors, and hedge funds.
- The company's extensive operating history as a special servicer for more than 30 years.
- Our belief that FCI has acceptable risk avoidance methodologies in place and effective controls in key servicing areas.
- FCI's unique and highly functional proprietary loan servicing web portal for investors that provides real time communication and extensive analytics that allows investors to drive their asset resolutions.
- The company's menu-driven web portal provides business partners with the ability to efficiently upload loan files for servicing based on a transparent fee schedule posted on the web site.
- Our belief that FCI's technology environment supports an acceptable disaster recovery and business continuity protocol. Network security, password administration, and borrower data confidentiality policies are clearly defined and routinely tested.
- In 2012, the company developed an independent loan servicing auditing program that should effectively test and monitor performance in all loan servicing areas and provide continuous feedback to management in 2013. Since the auditing program is new as of 2012 and no results are yet available, the company undertook an SOC 1 (SSAE 16) exam from a third party auditing firm to supplement their auditing plan in development. The SOC 1 (SSAE 16) contained no reportable findings.
- Our view that FCI has sufficient capacity to meet current special servicing volumes. We also believe the company, with the potential for significant third party servicing agreements based on current market trends, is well positioned with excess capacity both internally and via third party vendors if portfolio volume increases.
- FCI has acceptable training regimens in place for new hires commensurate with the size of the company and the largely experienced applicant pool from which they recruit.
- Proactive practices and procedures governing special servicing administration that are designed to accommodate investor driven and asset specific loan resolutions.
- Policies and procedures that indicate effective controls to promote prudent loan servicing practices throughout the organization.
- Overall, FCI has effective performance metrics in loan administration areas where statistics are available, especially customer relationship management and payment processing.

As of Nov 15, 2012, FCI's active special servicing portfolio was approximately \$1.9 billion consisting of approximately 13, 700 assets. FCI was founded in 1982 as Foreclosure Consultants, Inc., and has grown significantly as a private money specialty loan servicer in the non-performing asset market.

Forecast

Favorable for the special servicer ranking.

We expect that FCI will continue to be a highly effective special servicer for its investor clients. We will also continue to monitor the development and integration of its internal auditing program in 2013.

Our full assessment report on FCI is forthcoming and will be made available on our website.

Analyst:

Richard W. Koch, richard.koch@morningstar.com, 646-560-4519

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